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# Weekly Summary

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The WEEKLY SUMMARY, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, the Office of Geographic and Cartographic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.

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## MIDDLE EAST: EGYPT SHIFTS GEARS

President Sadat this week turned off the latest crisis in Middle East negotiations as abruptly as he had turned it on the week before, but only after Israel underwent a partial mobilization of its Sinai reserves in response to Egyptian warlike moves. Sadat's excursion into brinksmanship frayed some nerves in Israel and elsewhere and exercised his armed forces' alerting procedures. He also raised, then left unfulfilled, Arab expectations that he would force the pace of negotiations toward a general withdrawal of Israeli forces from the occupied territories.

In a letter to the UN Security Council president on July 23—the day before the UN force mandate in the Sinai was scheduled to expire—Egyptian Foreign Minister Fahmi announced that Cairo had decided after all to renew the mandate for three months. He cited the Security Council's appeal earlier this week as justification for Cairo's positive response. Fahmi said his government "particularly notes" the emphasis in the council's appeal on the importance of achieving progress toward peace and considers this declaration a "proper step compatible with" the council's responsibilities. Last week, Fahmi had called on the UN to live up to its responsibilities—which he never clearly specified—before Egypt could renew the mandate.

As tension developed through the week of uncertainty over the UN force, Egypt maintained an alert posture among its armed forces. The alert went into effect on July 16 and was apparently still being maintained after Egypt had announced its decision to renew the mandate.



Israel also mobilized several thousand reservists, but not until six days after Foreign Minister Fahmi's announcement on July 15 that Cairo had decided not to renew the UN mandate in the Sinai. The prevailing view in Tel Aviv was



President Sadat

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that the Egyptian move was a pressure tactic to force the pace of the negotiations rather than a harbinger of military hostilities.

It was not until the date for the expiration of the mandate drew closer without an Egyptian agreement to renew it that Tel Aviv began to have serious second thoughts. It then contended that Egypt's military measures appeared to have been planned well in advance of Fahmi's statement, and that, in any case, the "momentum" of the Egyptian military activities required precautionary Israeli military steps. [REDACTED]

A major *Pravda* article on July 15 summed up the defense of Soviet policy toward Egypt and indirectly accused Sadat of undermining Soviet-Egyptian relations.

In an attempt to head off any further moves by Cairo, the Soviets early last week implied they might be more flexible on Egyptian debt payments. Sadat has been demanding that the USSR postpone payments due in 1975 on Cairo's military debt, which is at least \$1.5 million. The Egyptian finance minister arrived in Moscow on July 22 to discuss the question; according to the Egyptians, he went at the invitation of Moscow. 25X1

## 10 EGYPT-USSR: BREATHING SPELL

The Soviets are probably breathing a little easier after Egyptian President Sadat failed to announce new steps against the USSR in his speech of July 22, but they almost certainly anticipate more troubles.

Prior to the speech, Soviet concerns centered on three possibilities:

- Restrictions on Soviet naval use of Egyptian ports would be increased.
- The remaining Soviet military advisers would be expelled.
- Sadat would abrogate the Soviet-Egyptian treaty.

Moscow may also be using its new proposal on the Abu Tartur phosphates project to placate Sadat. The Soviets had refused to provide financing for the port development and railroad construction necessary to develop the deposits, but are now saying they are willing to lend over \$500 million at commercial terms.

The outcome of the finance minister's visit will provide one clue as to how far the Soviets are prepared to go in order to prevent a further erosion of relations with Cairo. Some concessions on economic issues may be in order, but the Soviets are so dissatisfied with Sadat's foreign and domestic policies that they are unlikely to consider major conciliatory moves such as resumption of substantial shipments of arms. [REDACTED] 25X1

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## INDIA: PARLIAMENTARY APPROVAL

Parliament reconvened this week and the large Congress Party majorities in both houses overwhelmingly approved the month-old state of emergency amid new signs that Prime Minister Gandhi does not intend to allow India's political system to become again as free as it was before her crackdown. The government has taken additional steps to tighten its control over foreign correspondents and to discourage defiance of the recent authoritarian move.

The parliamentary session—expected to last one to two weeks—is limited to transaction of government business. The agenda includes bills that would approve recent executive ordinances that have curbed civil liberties, granted the government powers to confiscate the property of persons evading arrest, and precluded resort to the courts to challenge the state of emergency. In her parliamentary presentation, Gandhi refused to speculate on how long the emergency would remain in force. She stated bluntly, however, that under no circumstances would there be a "return to the pre-emergency days of total license and political permissiveness."

Opposition members—with the exception of key leaders who were jailed last month—attended the session only long enough to vote against the emergency and to denounce Gandhi's authoritarian moves, including the suspension of parliament's normal rules of procedure.

There are rumors that Gandhi may ask parliament for constitutional amendments that would institutionalize some of the emergency powers she now exercises temporarily. Such a move may be foreshadowed in statements by Indian officials who claim the British parliamentary system has not worked well for India. A frequently mentioned alternative is a strong presidential system like France's.

On July 21, the government imposed new censorship rules that could result in the expulsion of most foreign journalists. While the censoring of news before it is transmitted from the country has been dropped, the government now



Prime Minister Gandhi

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**SECRET****ANGOLA****New Cease-fire**18-19;  
20-25

requires journalists to sign a pledge that they will abide by extremely restrictive press "guidelines." Forbidden subjects include opposition activities, references to the 6,000-10,000 prisoners jailed in the past month, and anything that falls within the range of "unauthorized, irresponsible, or demoralizing news items, reports, conjectures, or rumors." There are some 50 foreign reporters in India; four, including two Americans, have already been expelled.

Public opposition to the emergency provisions has been slight. In some areas, underground presses are beginning to publish papers and handouts, but with little apparent impact. Various opposition parties reportedly are planning anti-government demonstrations, and there is the possibility of occasional sabotage and other acts of violence. Governments in the states where political opposition is strongest—Gujarat, Bihar, and Tamil Nadu—appear to be avoiding direct confrontations with New Delhi that might give the center a pretext for imposing "President's rule"—direct control from New Delhi—over those states.

School officials have been ordered to prevent anti-government activities by students returning from summer vacation. In some universities, student elections have been postponed indefinitely. The government has also delayed, for at least six months, the state elections in Kerala that were due in September. The Congress Party lost a state election in Gujarat in June and would have faced a serious challenge in Kerala.

The Supreme Court will begin hearing oral arguments against Gandhi's appeal on August 11, but the decision may not be announced until fall. Even if the court rules against her, it seems increasingly likely that the Prime Minister will insist on remaining in office. She could do this legally by amending the election law to change, ex post facto, either the basis for her recent conviction for election violations in 1971, or the penalty—her removal from office.

After almost two weeks of fighting in Luanda and the countryside, the National Front for the Liberation of Angola and the Popular Movement for the Liberation of Angola agreed this week to another cease-fire. The new agreement will probably be no more effective than earlier ones as the two groups struggle to be in control of Angola when it gains independence next November.

The Popular Movement now enjoys military dominance in the capital. The Front has only several hundred troops barricaded in an industrial complex just north of the city. Under the terms of the cease-fire, these troops will be allowed to remain there.

The National Front apparently has not abandoned the idea of fighting its way back into the city. A relief force that moved down from the Front's tribal stronghold in the north has skirmished with Popular Movement troops at Caxito, some 40 miles northeast of Luanda.

The Portuguese made only half-hearted attempts to stop the latest round of fighting, but apparently have now decided to take a firmer stand, ostensibly to avert further bloodshed. The Portuguese commander in the territory has ordered his troops to establish a defense perimeter around Luanda to protect it if the National Front moves in from Caxito. The Portuguese action will in effect help protect the Popular Movement's gains and convince the National Front that the Portuguese want the Popular Movement to win.

**Front Regroups**

The setbacks suffered by the Front prompted its leader, Holden Roberto, to make a quick tour recently of its facilities in northern Angola. His visit—his first inside Angola since the insurgency against the Portuguese broke out more than a decade ago—was obviously designed to boost sagging morale. Roberto is apparently now back in Zaire, but may return to Angola in the near future.

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The Front's defeats in recent months have been partly because of its inability to match the arms and equipment being supplied to its adversary by the Soviet Union. Belatedly, the Front is now receiving some additional Chinese and other equipment from stocks held by the Zairian army. Peking recently authorized Zaire to release the equipment. So far, however, Zaire apparently has passed on only modest quantities of small arms and ammunition, and perhaps some transport vehicles.

#### An Open Soviet Role

Recent substantial Soviet arms deliveries to the Popular Movement and harsher press treatment of the rival National Front indicate that Moscow is playing a more open role in its support of the Popular Movement.



Holden Roberto

and has labeled it a "reactionary organization" whose members are responsible for the death of hundreds of people.

Moscow probably still has not written off the prospect of a coalition government in Angola. With the Popular Movement now having a clear military advantage, however, the Soviets appear to expect that the Movement will have the dominant role following independence.

#### No Solution in Sight

The transitional government has virtually ceased to function. The Front has not yet announced a replacement for Johnny Eduardo Pinnock, its chief representative to the transitional government, who resigned last week and fled to Zaire. Portuguese officials apparently hope that fighting can be averted long enough to get at least the semblance of a transitional government structure functioning again. In the long run, however, this solution is simply a return to a formula that has already proven to be no solution at all.

Moscow and its East European allies are rumored to have made some direct arms shipments to the Popular Movement in Angola, but the Congo is the main conduit for Soviet arms.

The Soviet press has consistently accorded special praise to the Popular Movement, but until recently it avoided direct attacks on the National Front and Angola's smallest group, the National Union for the Total Independence of Angola. In the wake of the recent fighting in Luanda, however, the press has charged that the National Front is a client of China and the US,

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Shah of Iran



Tehran looked to the Jidda meeting to produce a statement in which the participants would take a common position on the desirability of limiting foreign interference in the Gulf. The Shah had also hoped the ministers would take steps toward an early Gulf summit conference on the security question. Neither goal was realized, although the ministers did agree to consult further.

The Iranians are nevertheless portraying the Jidda meeting in the best possible light, claiming as progress the fact that representatives from all Gulf states met for the first time to discuss common problems.

it was not any difference of opinion on Gulf security matters, but rather certain intra-Arab problems, such as the dispute between Kuwait and Iraq, that made a summit inappropriate at this time. Riyadh earlier had taken this line.

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#### PERSIAN GULF: FAILURE AT JIDDA

The foreign ministers of the Persian Gulf states failed to agree on new steps to strengthen cooperation on regional security when they met in Jidda on July 16 during the Islamic conference. The outcome was surely disappointing to the Shah of Iran, who has long been pushing for an alliance of Gulf states against outside interference and local threats to the status quo.

The Shah had been encouraged by political developments in recent months to believe the time was ripe to resume his search—begun in 1968—for a formula under which Iran could play a greater peace-keeping role on the Gulf's western shore. He believes the political systems there archaic and susceptible to subversion. Resulting political instability, he fears, could provide an opening for interference by outside powers in Gulf affairs.

There are, in fact, substantial differences among the states. Saudi Arabia was probably the main obstacle to rapid movement toward formal security cooperation. The smaller Gulf states probably followed its lead. The mistrustful Saudis do not believe there are threats sufficient to warrant a regional security arrangement and prefer to rely on bilateral ties. They certainly do not share the Shah's perception of a power vacuum on the western side of the Gulf that Iran should help fill.

Iraq reportedly supported the idea of a formal declaration, but one restricted to assuring freedom of navigation in the Gulf. Baghdad does not favor the more comprehensive approach being pushed by the Iranians.

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## PORTUGAL: GONCALVES AT ISSUE

33-36

The military regime in Lisbon is continuing its efforts to put a government together, despite a power struggle between moderates and radicals in its own ranks and the open opposition of moderate political parties. The military may try to compromise by offering to reorganize the government, but this would be only an expedient and would not solve the country's worsening problems.

The 240-member Armed Forces General Assembly on July 25 will consider the reorganization and possibly other proposals to restructure the government—some perhaps designed to alter the balance of power—but Goncalves' chances for political survival appear strong. An attempt by moderates in the assembly to oust Goncalves at this late date may well end in failure.

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25X1 [ ] the proposed reorganization would entail restructuring the government to form an 11-man directorate drawn from the present all-military Revolutionary Council. The Revolutionary Council—whose consensus rule has weakened its decision-making capability—would be reduced to playing a pro forma role.

Power would be further concentrated in a three-man executive composed of President Costa Gomes, Prime Minister Goncalves, and security chief Otelo de Carvalho, presumably representing the moderate, pro-Communist, and left-nationalist factions within the council. The executive would be assisted by two deputy prime ministers—one military and one civilian—to handle day-to-day administration problems. Both nominees suggested for the two positions are acceptable to the moderates; this may be the quid pro quo for retaining the present prime minister—whom the moderates want to oust—and accepting his cabinet nominees.

Such an arrangement might settle surface differences within the military, but the lull would be temporary at best. The moderates are unhappy about Goncalves' pro-Communist policies and have been trying to bring about his ouster by frustrating his efforts to form a new cabinet. They have been counting on the backing of a majority of the Revolutionary Council in a vote, but the continuing stalemate and the delay caused by Goncalves' difficulty in forming a new cabinet may lead to an erosion of the moderates' support. Many officers would probably favor putting a quick end to the present uncertainty by revamping the governmental structure.

The moderate political parties are unlikely to be pleased with the proposed reorganization. The Socialists, in particular, buoyed by the massive turnouts at party rallies in Lisbon and Oporto over the weekend, will be confronted by the need to respond decisively if it appears that the proposed reorganization means that Goncalves will remain in office. The Socialists used the rallies to protest the Armed Forces Movement's new policy of establishing "direct links" between the military and the people and bypassing political parties. They also concentrated on criticism of the prime minister in an effort to encourage moderates in the military to reverse the government's continuing trend to the left.

The Communists, on the other hand, will welcome any solution that retains Goncalves—the Communists' key to power—in the government. They responded to the Socialist demonstrations by taking advantage of their dominant position in the mass media to publicize support for Goncalves, while playing down the Socialists' success in organizing massive popular demonstrations of strength. The Communist-dominated propaganda division of the armed forces general staff has also expressed its support for the prime minister and his attempt to form a new government.

The Communists are concerned, however, about the wave of violence directed at their offices and property in northern Portugal. Never popular in the conservative north, the Communists have been tolerated until recently, but incidents of attacks on party offices by angry citizens are increasing daily. Although no single political group has claimed credit for organizing the attacks, they are becoming too numerous to be dismissed as random outbreaks of anti-Communist sentiment. [ ]

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## ITALY: FANFANI FALLS

37-38

Amintore Fanfani was forced out of Italy's most powerful political position—secretary of the Christian Democratic Party—when he lost a vote of confidence at the party's national council meeting this week. Fanfani's ouster amounts to a first step by the Christian Democrats toward changing their conservative image and improving relations with the Socialist Party.

Fanfani's power base came apart quickly in the five weeks between the council meeting and the regional and local elections last month. By late last week, center and leftist factions representing about 70 percent of the party had resigned from Fanfani's executive directorate. Prime Minister Moro and his faction did not go that far, but Moro kept his distance from Fanfani by proposing a temporary "collegial" leadership to guide the party until its congress in the fall.

Despite his isolation, Fanfani resisted pressure to resign until close to 60 percent of those attending this week's meeting voted not to accept his report to the council. In his report,

Fanfani blamed Christian Democratic losses on long-term political trends rather than his policies.

The Christian Democrats are still discussing how to replace Fanfani. If they rule out Moro's plan, Fanfani's successor will almost certainly be a moderate who has reached an accommodation with the Christian Democratic left-wing. The left has consistently opposed Fanfani's policies.

Attention will now shift to the Socialists, whose central committee is currently evaluating the results of the Christian Democratic meeting. By ousting Fanfani, the Christian Democrats have met one of the conditions recently listed by Socialist chief De Martino for his party's return to full participation in another center-left coalition, still the only workable alternative to Communist participation at the national level. The Socialists are now limiting their role to "case by case" parliamentary support for Moro's cabinet of Christian Democrats and Republicans.

In addition, the Socialists want programmatic concessions from the Christian Democrats that would give any new government a more leftist cast. Even those Christian Democrats inclined to move in that direction, however, will have trouble with De Martino's idea of bringing the Communists directly into the government's policy-making process. De Martino, although ruling out government posts for the Communists in an interview last week, called for formalized consultations with them on the government's program. De Martino said he could not see how his party could agree to participate in a government that leaves the Communists in opposition.

The Socialists evidently believe their party will suffer electorally if it remains associated exclusively with the Christian Democrats. At the same time, the Socialists fear they would be dominated politically in any partnership with the stronger and better-organized Communists. De Martino's idea of getting all three parties



De Martino(c) with other Socialist leaders

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committed to the same program is an attempt to solve both problems.

The Communists are still preoccupied with consolidating their gains at the regional and local levels, but they regard Fanfani's fall as a victory. The Communist electoral campaign was a highly personalized one and directed against Fanfani, whose political line was more explicitly anti-communist than most other Christian Democratic leaders. Fanfani's domination of the Christian Democrats was seen by Communist chief Berlinguer as a major obstacle to his "historic compromise" strategy, aimed at an eventual rapprochement between the two parties.

Franco regime at one time or another—formally constituted a political action group under the guise of a research corporation. By organizing as a research corporation instead of applying for status as a political association, the founders—whose political credentials are impressive—have signaled their disapproval of the limitations on associations while maintaining a political voice through their new organization.

The founders of the new corporation, to be known as the Independent Studies Federation—FEDISA—stated that its purpose is to study political, social, and economic problems confronting Spain. While admitting that they subscribe to different political ideologies, all the members believe that public liberties and commitment to a democratic system are essential.

### SPAIN: NEW POLITICAL GROUPS

Prime Minister Arias' plan to permit controlled political associations is being undermined by opposition groups who are forming their own organizations without the regime's sanction.

Last month, 16 center-left opposition parties formed an alliance known as the Democratic Convergence. The organization is reportedly unwilling to apply for legal status, apparently out of concern that to do so might tarnish its opposition image.

The Democratic Convergence has the potential to become a major political force if the various parties within the alliance maintain their cohesiveness and if partisan activity is permitted in the post-Franco era. It will serve as a counterweight to the Communist-dominated Democratic Junta formed in Paris last year. The new organization made its first public move last week when it issued a manifesto calling for the "re-establishment of popular sovereignty through an essential break with the regime and the beginning of a constitutional period."

Earlier this month a group of moderates—most of whom had been associated with the

FEDISA should become an important pressure group. The most prominent member is Manuel Fraga Iribarne, currently ambassador to London, who earlier this year decided not to form a political association after the government failed to provide sufficient guarantees of freedom of action. A number of other members still occupy official positions, and many have occupied important government posts.

The Franco government reportedly is angered over the organization of FEDISA outside the framework of the political associations. The newly appointed minister of the National Movement called the device of incorporation "a fraud against the nation."

General Franco himself criticized dissident political groups in widely publicized remarks last week to a conservative organization of Civil War veterans. His reference to the dissident groups as "dogs who bark" seems certain to hinder further Arias' efforts to encourage applications for political association status. In the period since last January, when the statute for political associations took effect, only five, predominantly rightist, political associations have been approved by the government.

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CSCE: ON TO THE SUMMIT

43-48

Negotiators at the European security conference reached agreement on military-related confidence-building measures and several other issues last weekend following the longest negotiating session in the history of the conference. The agreements cleared the way for acceptance of July 30 as the opening date for a three-day summit in Helsinki.

Agreement on confidence-building measures was made possible when Turkey, under increasing pressure from its NATO Allies, dropped most of its demands. Compromises were worked out that give Turkey partial exemption from notification of maneuvers along its southern and eastern borders. Turkish concerns were also recognized by the inclusion of a provision for separate notification of amphibious and airborne maneuvers.

The Soviets held out until the last hour for a mention of the "irreversibility of detente" in the final declaration, but agreed finally on a slightly less pointed formulation. The Soviets also tacitly agreed to allow Italian Prime Minister Moro to sign the final declaration twice—acting on behalf of the EC as well as Italy.

Attention has now shifted to Helsinki, where 35 heads of government meet next week to sign the declaration adopted by the conference. Each speaker is supposed to limit himself to 20 minutes. In an order determined by lot, British Prime Minister Wilson will be the first to address the conference; General Secretary Brezhnev will be thirteenth, and President Ford is twenty-sixth.

West European leaders are generally on the defensive as the Helsinki summit approaches. They hope to counter initial public skepticism by focusing in Helsinki on the more positive aspects of the agreement, stressing the potential for expanded human contacts and increased cooperation with the East. The UK, France, and the US will also make coordinated statements noting the applicability of the conference documents to Berlin.

EC leaders will reportedly use the conference to caution Brezhnev privately of the dangers of Soviet interference in the chaotic situation in Portugal. French President Giscard has been advised [redacted] to take a hard line in Helsinki, stressing the need to implement the provisions of the declaration and to maintain a strong military defense in Western Europe.

The Western allies now believe that Moscow may follow up the CSCE with renewed emphasis on disarmament negotiations, possibly including a new push for a world disarmament conference. [redacted]

[redacted] expects Moscow to begin a drive to broaden the scope of the force reductions talks in Vienna to include northern and southern Europe. [redacted]

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EC: LEADERS MEET

49-61

The meeting in Brussels on July 16-17 of the European Council fulfilled the aim of the nine EC leaders to conduct an informal exchange of views on major issues without giving rise to public anticipation of dramatic decisions.

The largely unstructured format was not without its limitations, despite the keen satisfaction expressed by French President Giscard and German Chancellor Schmidt. The perennial complaint of the "Small Six" EC countries that the "Big Three" dominate such proceedings was implicitly reflected in comments to the US embassy by a Dutch foreign office official. The Hague was also exasperated by what it regards as the lack of focus to the discussions, which the Dutch blame on inadequate staff preparations. EC Commissioner Soames has privately admitted that the Council was confused and had made only limited progress, but he attributed this largely to a poor performance by the chairman, Italian Prime Minister Moro.

Economic issues relating to the world-wide recession dominated the talks. As expected, no

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major common policies were agreed upon, although the discussions probably helped clear the way for eventual decisions.

A consensus was reached that all members, except Britain, Italy, and Ireland, would implement further reflationary measures, particularly increased public spending, early this fall. This topic headed the agenda of the Wilson-Schmidt and the Schmidt-Giscard meetings in Germany on July 24 and 25-26 respectively. As a result, Schmidt is expected to express a Community viewpoint when he urges President Ford to pursue a similar policy when they meet in Bonn on July 26.

It was agreed that Paris—which reported Washington's agreement—would take steps to call a second preparatory conference of oil producers and consumers early this fall. If all goes well, and the differences which led to the breakdown of the first meeting are resolved, the full conference would be scheduled for late November or early December.

Giscard did not ask the other EC members to support his proposal for an economic and monetary summit of the US, the UK, France, West Germany, and Japan. The nine reportedly were in full agreement that consultations with the US and Japan were necessary, but the timing, level, and modalities were not discussed in detail. Moreover, some of the smaller members are insisting that the Community as an entity should be represented to ensure that their

interests are protected. Official sources in Bonn understand that an agenda would focus primarily on coordination of demand management policies designed to restore economic growth, and that a discussion of international monetary questions—and the French effort to restore a fixed exchange rate system—would be secondary.

Discussion on raw material policy, and on an EC strategy for this fall's special session of the UN General Assembly, apparently facilitated the compromise reflected in an agreement reached at this week's foreign ministers council. At the ministerial, the Nine agreed on broad guidelines which will serve as the basis of the EC presentation at the UN meeting. The paper represents a balance between those in the Community—notably France—who wanted to emphasize commodity agreements and those who preferred a policy aimed at stabilizing the export earnings of developing countries.

Developments in Portugal and the outlook for a large loan to the Lisbon government were carefully scrutinized. It was agreed that aid to Lisbon—French objections notwithstanding—would be contingent upon evidence that it intends to adopt a democratic form of government. Portuguese Foreign Minister Antunes, however, decided at the last moment not to keep his appointment with the EC foreign ministers.

The Council issued a declaration on the UN which, while not specifically mentioning Israel,

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Summit participants congregate in front of the Royal Palace in Brussels



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was intended to reflect EC concern over recent Arab moves to exclude that country from the UN. The leaders also agreed upon a declaration to be made in connection with the CSCE summit meeting.

The leaders devoted scant time to EC institutional questions, although Prime Minister Wilson took advantage of this first summit meeting since the UK referendum on EC membership to discuss Britain's new commitment to Europe. Britain withdrew its reservation on giving the European Parliament significantly increased authority over the EC budget, thus enabling the foreign ministers this week to sign the necessary documentation and pass it to the member governments for ratification. In another move involving the Parliament, the leaders set up a committee to prepare a report for the next European Council in November on the prospectives for direct elections of national representatives to Parliament by 1978. The foreign ministers were also charged with providing reports, by year's end, on the prospects for an EC passport union and on formulating community-wide rights for all citizens of EC members states.

common ceiling. Although pressed by Western negotiators to exchange data concerning its forces, the Eastern side continued to regard such an exchange as "premature."

The Soviets continued to criticize the asymmetrical approach advocated by the West and demanded that the scope of the negotiations be broadened to include reduction of air and nuclear forces. They also continued to insist that all West European participants—not just the US—accept limitations on their forces from the outset of the agreement.

The only new development came when the East agreed to discuss how to distinguish ground from air forces, but no agreement was reached on definitions. The subject will come up again in September.

The real focus of Western activity was at NATO headquarters in Brussels, where the Allies are still engaged in detailed discussions—expected to continue into August—of the nuclear option. Two particularly sensitive issues were raised: possible limitations on West European armaments, and the issue of restraining Soviet nuclear systems in the area. Other issues under discussion included:

- The nature of a Soviet commitment to a common ceiling for manpower.
- The possible inclusion of air as well as ground force manpower in the common ceiling.
- The extent to which these proposals should be linked together and the appropriate time to introduce them at Vienna.

## MBFR: DEADLOCK CONTINUES

62-63

The force reduction talks in Vienna have adjourned until September, with the 22-month deadlock still unbroken. Western representatives hope that once the European security conference is out of the way, some progress can be made in the next round by introducing Option III—the West's nuclear proposal.

The nuclear proposal calls for the reduction in Western Europe of some US nuclear warheads and delivery systems in return for a withdrawal of a Soviet tank army and as firm a Soviet commitment as possible to a common ceiling for both Warsaw Pact and NATO forces in Central Europe.

The West continued unsuccessfully to press for a Soviet reduction in ground forces and a

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## MULTILATERAL TRADE NEGOTIATIONS

64-69

A meeting of the trade negotiations committee in Geneva on July 15-16 set the stage for substantive talks in the multilateral trade negotiations now under way. Most of the industrialized countries that are participating in the talks were generally satisfied with their pace. The developing countries, however, complained that little has been done for them. Developed and developing countries alike agree that early progress in the talks is most likely in the area of tropical products, of principal interest to the developing countries. As the emphasis in the negotiations shifts from generalities to specifics, however, progress in other areas will be more difficult.

The aim of the meeting last week was to review the work since last February of six negotiating groups and to give it impetus before the main committee meets again in December. To a large extent, the tone was set by a US proposal to identify those areas in which, short of an overall agreement, accords on "interim concrete results" might be reached. The developing states, looking for preferential treatment, generally favored the proposal.

early progress could and should be made to satisfy the demands of the developing countries on tropical products. Another EC official said he was satisfied that the Geneva meeting had been able to end without the EC having been forced to take a position on interim agreements. In Brussels, the US and EC agreed to maintain close bilateral consultations.

Working groups in Geneva conducting negotiations on specific items will resume their meetings in September. The groups will continue to seek a tariff-cutting formula and methods to remove non-tariff barriers to trade.

Agriculture will remain the most difficult topic, because the US and the EC still have fundamentally different approaches. The US wants to assure that negotiations on agriculture are not isolated from talks in other groups so that EC farm protectionism in fact becomes subject to bargaining. The EC, fearful of attacks on its agricultural policy, wants farm trade isolated as much as possible from the negotiations on industrial tariffs and non-tariff barriers.

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Notwithstanding an agreement in May between the US and the EC, which allowed negotiations in the agriculture group finally to get under way, fundamental differences are far from resolved, and another impasse could develop at any time.

The EC has also seized upon recent Soviet grain purchases to promote their efforts to incorporate into the trade negotiations the talks on grain reserves now being held in London. Commission Vice President Soames recently questioned whether the large purchases, by greatly reducing the amount of grain available for stockpiling, do not vitiate US arguments for separate, rapid action in the London grains group.

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In talks with US officials in Brussels after the committee meeting, EC Commission Vice President Soames expressed only guarded approval of the US proposal in Geneva. Soames did say that, although he could not agree to set specific target dates for early achievements,

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## ARGENTINA: MORE CABINET CHANGES

70-71

President Peron, whose own days in office may be numbered, was obliged to make further cabinet changes this week. She accepted the resignation of embattled Economy Minister Rodrigo, reviled for his support of economic austerity and for his ties to the ousted Lopez Rega. She also was forced to replace her new press secretary and the man whom only two weeks ago she had appointed to succeed Lopez Rega as welfare minister. Both had been linked to Lopez Rega. Still more cabinet changes are rumored, particularly in the ministries of labor and foreign relations.

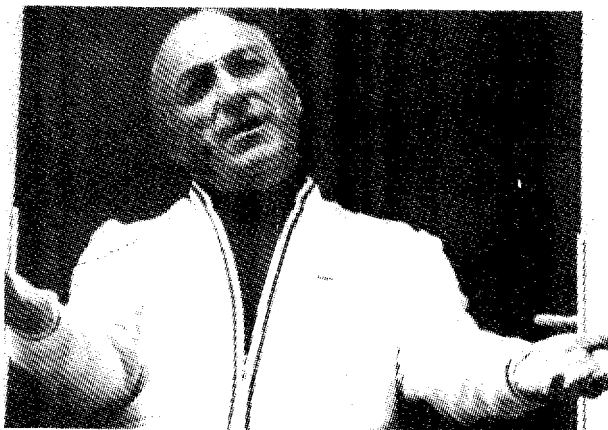
The latest changes, the second major shuffle in two weeks, were prompted by continuing pressure from organized labor, backed by the military. The officers also moved to eliminate the residual influence of Lopez Rega by insisting on his departure from Argentina; he quickly left for Spain.

Named to take over the top economic policy post is Pedro Jose Bonanni, a lawyer and moderate Peronist who 20 years ago headed Juan Peron's Finance Ministry. He should be generally accepted. It would be difficult to attack him politically, given his Peronist credentials. He has given no indication of his policy intentions, but further attempts at economic austerity are highly unlikely.

The repudiation of Rodrigo and austerity is another political victory for labor, but further undercuts the country's ability to secure inter-

national assistance for its serious balance-of-payments situation. Labor has refused to accept that there is any need for decreased spending and sacrifice. This week, labor leaders called for further periodic wage increases, as well as price controls and the nationalization of foreign trade activities and the banking system.

Despite the changes at the top, the administration's woes continue. Critics have already begun to charge that the newest welfare minister, Rodolfo Roballos, is also linked to Lopez Rega. Moreover, work stoppages continue in Buenos Aires and elsewhere. Striking doctors were dispersed by security forces; airline pilots staged walkouts. In addition, the left-wing Peronist youth group has called for the resignation of Mrs. Peron, charging that her government is not truly Peronist. Right-wing youth replied by threatening with death anyone who "touches Isabel." 25X1



Lopez Rega

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## ECUADOR: PAYMENTS PROBLEMS

75-80

Quito's long-standing dispute with the Texaco-Gulf consortium that produces practically all of Ecuador's oil will cause lower export revenues this year. Progress is now being made toward ending the dispute, but a continuing boom in imports is likely to result in a large current account deficit.

Oil shipments began to decline in May 1974, when the government slapped on conservation ceilings that forced Texaco-Gulf to reduce output from 240,000 to 210,000 barrels a day. Technical difficulties with the Trans-Andean pipeline and consortium shutdowns aimed at forcing policy changes led to further cuts in production. Consequently, oil shipments dipped 18 percent in 1974 and an additional 29 percent in the first half of 1975. Total export earnings, which soared to \$1.1 billion in 1974, will slip to \$1 billion this year even if oil shipments soon regain their earlier peak level.

The dispute centers on Quito's oil tax policy. Company officials maintain that the tax-paid cost of \$11 a barrel for Ecuador's crude—in

effect until last week—made it noncompetitive with most crude oil from the Middle East. Declining tanker rates have reduced the short-haul advantage Ecuador had for its crude, much of which goes to Caribbean refineries via the Panama Canal.

Texaco-Gulf also has become increasingly disturbed because the government has failed to pay both the remaining \$3 million due on a 25-percent equity purchased in the consortium and a fair share of operating costs. Faced with this as well as the tax and production-ceiling disputes, the consortium abandoned exploration, postponed plans for opening new fields, and delayed expansion of the 250,000 - barrel per day Trans Andean pipeline. The government's oil policy also discouraged a consortium of American firms from constructing a pipeline spur to its concession this year.

To force Quito to come to terms, Texaco-Gulf shut down production for two weeks in May and suspended operations indefinitely in early June. At the same time, it offered to make new investments totaling \$165 million in exchange for more conciliatory policies. On July 9, the government agreed to cut taxes by 43 cents per barrel; the consortium demanded a cut of at least 60 cents. Quito probably will make additional concessions soon because it cannot afford a prolonged loss of oil revenues.

Increased expenditures on economic development and welfare will bring an estimated 38-percent jump in imports this year. Although Quito has temporarily banned automobile imports and has restricted credit financing of other purchases abroad, it has avoided severe curbs for fear of hurting development programs and aggravating inflation. Even if oil exports are promptly resumed, a current account deficit of nearly \$400 million is likely.

Because foreign reserves totaled only \$274 million at the end of May, Quito will seek foreign capital to cover the deficit. It probably will be forced to rely mainly on commercial sources. A request for \$1 billion in credits from Middle Eastern governments has been ignored.

## OAS: CUBA SANCTIONS

81

The sanctions against Cuba will probably be addressed by the OAS delegates now in conference in San Jose, Costa Rica. Amendments to the Rio Treaty—the official business of the conference—should be completed within a few days. Mexico then hopes to present a resolution designed to allow OAS members "freedom of action" on relations with Cuba—a proposal that most of the delegates favor. The final decision to deal with the Cuba problem at San Jose has not been made, but Mexico appears to have the votes to push it through.

The conference as constituted now is not empowered to act on this matter, but the delegates can "reconvene" as an Organ of Consultation immediately after the current session ends. A few governments prefer further delay, but the mood at San Jose favors rapid movement.

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## PERU: STRIKES IN AREQUIPA

82-86

A general strike in the southern city of Arequipa this past week led to several clashes with the police and caused the government to decree a state of emergency in Arequipa, Moquegua, Tacna, and Puno provinces and to suspend constitutional guarantees.

Four cabinet ministers flew to Arequipa—a long-time center of anti-government opposition—to seek an accommodation with the workers. Although they made a number of concessions, the talks broke down. The press reports 50,000 workers went on strike. The government's show of force, however, caused the strike to end shortly after the emergency decrees were initiated. The basic issue—inadequate wage increases to compensate for price hikes resulting from the termination of government subsidies for important items—does not appear near resolution, however, and labor unrest may spread to other parts of Peru.

Worker dissatisfaction with the economic decrees issued by Prime Minister Morales Bermudez on June 30 is widespread. These measures were designed to combat spiraling inflation and a growing budgetary deficit. The plan calls for the reduction—and in some cases the removal—of government subsidies on essential agricultural and petroleum products, and for wage increases to help offset the price hikes. Labor groups, however, argue that the wage increases are not commensurate with the price hikes.

It is also quite probable that the communist General Confederation of the Peruvian Workers was using the strike to warn against anti-communist tendencies in the government. The confederation has long supported the government's policies, but the shifting of power from Velasco to the more moderate Morales Bermudez has caused it considerable concern.

Morales Bermudez' economic policy has been a matter of controversy since he suspended Velasco's use of economic subsidies to help Peru's lower classes. If it provokes increased

opposition, Morales Bermudez' present strength, together with his prospects for succeeding Velasco as president, will eventually be weakened. The government's flexibility in last week's negotiations may indicate that he recognizes that he must seek some compromise with the workers to avoid a confrontation that would play into the radical opposition's hand.

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87-89

## BRAZIL: LIBERALIZATION ATTACKED

Conservative military opponents of President Geisel are exerting strong pressure to force him to abandon his program of political liberalization. No direct confrontations have occurred, but during the past month security forces on their own authority have accelerated their arrests of communists and leftists, and a new series of anonymous pamphlets attacking Geisel personally has been circulated among high-ranking officers.

About 100 leftist opponents of the regime have been taken into custody in several states. Despite the President's strict orders against torture and illegal detention, some of those arrested in Sao Paulo reportedly were initially mistreated and held without the required notification being given within 48 hours after arrest. Meanwhile, right-wing publications linking government leaders to international communism have appeared for the second time this year.

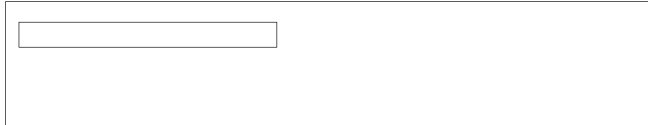
The reasons for the resurgence of concern at this particular time are not clear. Geisel has not made any major political changes recently, nor has he indicated that he plans to do so. It may all be an effort to block the appointment of a strong liberal to replace General Golbery, the architect of moves to ease restrictions on political activity. Earlier reports had suggested that Geisel might remove Golbery in order to appease military hardliners,

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extensive concessions prior to the conclusion of any treaty.

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There is no firm evidence that opposition to Geisel is well organized or widespread enough to pose a serious threat to the stability of his government. The attacks apparently are intended to warn him that he may already have gone too far in promoting liberalization. By initiating a controlled dialogue with politicians, Geisel departed substantially from the attitudes of his predecessors. Fresh indications of continuing strong opposition to these moves make further significant liberalization unlikely in the near future.

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90-93

#### PANAMA: OPTIONS ON THE CANAL

Senior Panamanian officials, pessimistic about the canal treaty negotiations with the US, are discussing possible courses of action.

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General Torrijos and his advisers are concentrating on three options:

The first involves compromising on some treaty issues in order to reach an agreement this year, with the understanding that US ratification would probably be delayed until 1977. The Panamanians believe this course would retain the confidence of foreign investors, but by forcing the government to yield somewhat on key issues would incur opposition from certain student and other nationalist groups.

The second alternative, to draw out negotiations until 1977, would involve taking a tough stance on key issues in the belief that the US position would become even more vulnerable as a result of intensified world-wide criticism. It is felt that this international pressure would force Washington to grant more

The third option would be to admit that the negotiations had broken down and to move toward a possibly violent confrontation with the US. The authorities would allow students to make incursions into the Canal Zone, take the issue before the UN, and begin a vitriolic anti-US propaganda campaign. This approach would entail serious drawbacks. Disorders would aggravate existing economic problems, and the government might have difficulty maintaining control once anti-US activities had begun.

Torrijos seems to be trying to gauge the mood of the public before deciding on a course of action. Thus far, he has mixed moderation with pressure, but may decide later to use some parts of each option.

The general appears to want to continue to negotiate. The pro-government press stresses that Torrijos is convinced this is the best path to achieve Panama's aspirations. The US embassy has been told that Vice President Arturo Sucre was removed because he opposed compromise in the negotiations. At the same time, however, Torrijos has muddled the water by declaring he no longer feels bound to protect the confidentiality of the talks. Panamanian officials have begun making public the details of the negotiations. These statements could make it difficult for the Panamanian negotiators to retain flexibility on certain key issues.

Torrijos may have decided that the possibility of a new treaty in effect before 1977 is very remote. He almost certainly believes, however, that considerably before that time he must have a major accomplishment, such as the signing of a draft, to show the people. If he is unable to produce such an accomplishment through negotiation, he will more than likely give serious thought to the possible benefits—as well as hazards—of using violence.

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LAOS: PLODDING FORWARD

94-100

Communist efforts to assert more authority—at least on the national level—have slowed down since the end of the communist central committee meeting in Sam Neua in late June.

for the cabinet, has postponed its summer session until October. Non-communist cabinet ministers are virtually powerless. Defense Minister Pheng Phongsavan, at one time a force in his own right, cannot even sign chits authorizing use of gasoline. Deference continues to be paid Prime Minister Souvanna Phouma, however, and his presence in the country may serve to inhibit those communists who would like to push the revolution with more vigor.

In Vientiane, the communists are still chipping away at the coalition facade, but there have been few dramatic changes in recent weeks. The Joint Commission to Implement the Agreement, which had been active in negotiating thorny cease-fire issues and enjoyed equal status with the cabinet, has been declared “unnecessary” and dissolved. The Joint National Political Council, which supposedly sets policy guidelines

Reports from the countryside suggest that the communists are moving more rapidly toward setting up a traditional communist administrative system in the provinces—particularly in the south. Non-communist police and military units have been disarmed, communist officials installed in local government posts, hair and dress regulations promulgated, and in some areas the Lao flag discarded. In the city of Thakhek in the central panhandle, several reports indicate that earlier this month several students and



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other young people were seriously injured when Pathet Lao troops used gunfire to enforce an order. In response to these measures, former officers and government officials have been slipping across the border to Thailand. No organized resistance has been reported, nor is it likely to develop.

The Lao—perhaps in an effort to remove foreign witnesses to their activities in the countryside—are eliminating all non-communist diplomatic presence outside Vientiane. The Thai have closed three consulates because of uncertainty about the safety of their personnel. The French have been asked to close their three small military missions in the provinces, and Japanese and Australian voluntary agencies are

bringing their activities outside the capital to an end. Travel by foreigners outside the capital has also been limited.

Pressure is building on non-communist diplomatic missions in Vientiane, although they are not being subjected to the kind of intense harassment directed at the US embassy. All are finding it increasingly difficult to transact business with the government. In contrast, the Soviets claim they have no problems. A pro-communist Vientiane daily recently lumped the Australians with the Thai as "obstructors of progress toward national reconciliation." Leftist students, who in the past have been important communist provocateurs, now claim to be "examining the size of foreign diplomatic missions."

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